

SECRET

June 19, 1957

MEMORANDUM

To: Mr. Robert B. Wright, Chairman
EDAC Working Group III

From: Russell W. Hale, MDAC Member
EDAC Working Group III

Subject: The Working Group III Work Program

EDAC D-127/11a laid down a number of specific tasks for Working Group III. It is the purpose of this memorandum to suggest that the Working Group initiate work on some of these general assignments and consider undertaking certain other tasks within the scope of its competence.

We would suggest that the Working Group turn its attention first to two of the four major assignments of the Work Program:

1. Closer association with NATO and other security alliances.

This assignment for Working Group III is discussed in paragraph 16 which stipulates that Working Group III should review and revise Staff Study No. 14 prepared by the CFEP Drafting Group.

MDAC suggests that Working Group III be convened within the next month with this item placed on the agenda. At this meeting specific arrangements and timing could be established by which this review can proceed, unless good reason is offered and accepted by the group for further postponing this assignment.

2. Free World resistance of Soviet economic penetration.

Paragraph 18 of the Work Program is directed to the implementation of the agreed policy of encouraging "free-world countries to resist Soviet economic penetration and to avoid excessive dependence on trade with the Sino-Soviet bloc", and its corollary of fostering "the development of necessary markets and sources of supply within the free world".

To this end Working Group III is asked to consider the tools available to EDAC for fostering development of free-world markets and sources of supply and the manner in which EDAC might participate in encouraging free-world resistance, etc. The Working Group is asked to prepare recommendations for action on these subjects. MDAC therefore suggests that at the next meeting the Working Group consider how the above-mentioned examinations can best be undertaken.

SECRET

State Dept. declassification & release instructions on file

-2-

The selection of these two assignments as starting points does not necessarily imply an MDAC judgment of their greater importance as compared with the other two assignments (paragraph 13 and paragraph 17). It seemed rather that a review of a specific existing policy proposal (paragraph 16) and consideration of long-standing items of vital current concern (paragraph 18) might serve as appropriate starting points. Along with these basic assignments, MDAC suggests that the Working Group might also consider a third task -- one of active current interest.

As we have read, on May 7 Khrushchev presented to the Supreme Soviet a plan for a less decentralized organization of the industry of the Soviet Union. These proposals were apparently less sweeping than suggested by the earlier discussions and by the report of the Central Committee and Council of Ministers published March 30. (See IR Intelligence Brief 2099 and IB 2120.) The plan which Khrushchev presented specifically excluded most key heavy and defense industries. Nevertheless, considerable adjustments in the organization of industry are being projected.

Among other things, the reorganization seems to reflect many chronic and some acute economic difficulties which the Soviet Bloc is currently experiencing. This raises again the question which has often been touched upon in economic defense considerations but which has never fully been explored. It is the problem of determining whether and how the economic defense program can be applied so as to aggravate difficulties and dislocations which Soviet industry experiences in the course of its economic development, thus making that development more costly to the Kremlin. It has often been contended that a fluctuating control policy (sometimes called "whip-lash") could have a considerable impact if it were found possible to develop and apply such a technique.

MDAC is not proposing that Working Group III recommend innovations in the economic defense program, especially at this time. Nevertheless, MDAC suggests that some of the questions highlighted by the current economic developments in the USSR should be examined in the context of economic defense policy. MDAC therefore suggests that Working Group III (through the Research Panel) ask the intelligence community to consider whether the recent decentralization measures afford a departure point for an up-to-date review of the various sectors of Soviet industry which might indicate areas of observable relative weakness. If such definition or redefinition of vulnerabilities were found to be available, Working Group III could consider in what manner the economic defense program could be applied so as to aggravate such difficulties.

In any event, I believe it would be desirable for Working Group III to consider these and other recent developments, such as the revised multilateral China controls, to ascertain whether they afford a possibility or impetus for fresh approaches to the implementation of our economic defense program.

SECRET